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STATE FOR NEA/MAG AND EEB/IFD/ODF

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TAGS: ECON ETRD EFIN EINV MO
SUBJECT: EFFECTS OF RECESSION STARTING TO APPEAR IN MOROCCO

REF: A. RABAT 0284
¶B. RABAT 0171

RABAT 00000642 001.3 OF 003

¶1. (SBU) Summary: The lingering global recession continues progressively to affect economic growth forecasts for Morocco, as well as the balance of payments and current economic activity. A flurry of reports, prognostications and evaluations in late June and early July describes the Kingdom as resisting economic contraction thus far, but feeling increasing strain from declining exports, remittances and tourism. New official predictions have shaved 2009's economic growth estimate to 5.3 percent from 6.7 percent, and some observers are turning pessimistic about prospects for ¶2010. However, the finance sector is sanguine about Moroccan banks' continued immunity to the financial turmoil that has afflicted other countries, and banking sector observers are optimistic about the country's economic prognosis. Morocco's most acute vulnerability would appear to be its thinning foreign reserves margin, but the central bank believes the current level of reserves will see Morocco through the economic downturn. End Summary.

Lower Growth Predictions, Again

¶2. (SBU) Morocco's High Planning Commission (HCP) released on June 24 its latest prediction of 5.3 percent GDP growth for 2009, down from HCP's early 2009 estimate of 6.7 percent growth (although other entities, such as Morocco's Ministry of Economy and Finance, had predicted growth between 5 and 6 percent since the beginning of 2009). The HCP estimates that agricultural GDP will increase by 25 percent, but non-farm growth will reach only 2.3 percent. The 2010 outlook also fell, to 2.3 percent, including 3.9 percent non-farm growth and a drop of 5 percent in agriculture after this year's boom. Preliminary statistics for the first quarter of 2009 indicate that annualized growth reached only 3.7 percent, driven by 26.8 percent agricultural growth. Non-agricultural GDP growth was limited to 0.6 percent, its lowest level in years. On July 22, Minister of Economy and Finance Salaheddine Mezouar told G-20 Ambassadors and Charges that he predicted at least 5 percent GDP growth, inflation under 2 percent and a budget deficit equivalent to less than 2.5 percent of GDP for 2009.

¶3. (U) The Centre Marocain de Conjoncture (CMC), an economic think tank, released on July 15 the results of a survey of Moroccan businesses, concluding that businesses are starting to feel the effects of the economic slowdown. Seventy-one percent of the 90 respondents, including major companies and federations of businesses (representative of close to two-thirds of Morocco's economy), had experienced a decline

in business since January, with 45 percent indicating a decline greater than 10 percent. Only 36 percent expected their own business to improve in 2010 compared to 2009. In response, businesses plan to reduce their investment (43 percent of respondents), reduce operational costs (35 percent), and extend credit to consumers to facilitate purchases (35 percent). Although only 15 percent expected to reduce their workforce, fully 81 percent anticipate a freeze on adding new positions for the duration of the "crisis," a worrying sign in a country that, according to recent government reports, needs to create 400,000 jobs per year to absorb population growth.

Bankers Relatively Optimistic

¶4. (SBU) Despite the flurry of lower economic indicators, Morocco's leading banks say they are not yet concerned about the country's economic prospects. Mohamed Bennani, Administrator-Director General of the Moroccan Bank of External Commerce (BMCE), told EconOffs on July 1 that his bank's outlook for its own business and Moroccan economic growth is still optimistic. Morocco will be able to absorb the current declines in tourism receipts, export earnings, and remittances from overseas workers, he predicted. Bennani admitted, however, that continued global economic weakness through 2010 would have more severe repercussions for overall growth. He asserted that the banking sector is well-placed to ride out two to three more years of economic hardship due to healthy portfolios, the high level of capital reserves of banks, and relatively low exposure to the sectors suffering most from the economic crisis (such as textile exporters).

¶5. (SBU) Abdeljaouad Doss Bennani, Deputy Director General

of Attijariwafa Bank, argued that Morocco's intermediate level of development also provides support to sustained GDP growth. He observed that domestic consumption, far more significant in Morocco's GDP than exports, is driven by the rising standard of living and growing household incomes of Moroccans, and the average Moroccan household is still in the process of acquiring modern amenities and products. Thus, while economic slowdown in advanced economies tends to self-reinforce as consumers put off replacing their possessions, Moroccan consumers are for the most part purchasing these goods for the first time -- cars, washing machines, microwave ovens, and so forth. These first-time buyers are less likely to defer acquisition of these goods due to recession than those who would be replacing or upgrading existing goods. Bennani asserted that this internal demand has driven Morocco's economy for the past decade, and will continue to facilitate growth despite the weakness in other sectors.

Foreign Exchange Concerns

¶6. (SBU) Of increasing concern to observers is the widening current accounts deficit, which the HCP forecasts growing to 6.4 percent of national GDP in 2010 (from 5.2 percent in 2008). Morocco had actually enjoyed a current accounts surplus until 2007, but that swiftly reversed into a large deficit in 2008, due to high petroleum import costs (Ref A). Some economists are concerned that the healthy continued internal demand highlighted by Attijarawafa's Bennani could aggravate the deficit in goods and services, as consumers continue purchasing imports, while Morocco's exports suffer from weakening demand abroad. Karim el Aynaoui, Director of Economics and International Relations at the Bank al Maghrib (BAM - Morocco's central bank), told EconOff on July 22 that figures for the first five months of 2009 indicate that the trade deficit is diminishing compared to 2008, primarily because of lower prices for imported oil and cereals.

Exports declined relatively more than imports as a percentage of last year's value (exports dropping by 29 percent compared to only 18 percent decline in imports), but the deficit has in fact narrowed (by 4 percent) because the starting value of imported goods was nearly twice that of exports.

¶7. (SBU) The gain in the balance of trade in goods is offset by a lower surplus in services (especially in tourism revenues) and over 15 percent decline in remittances from Moroccans working abroad. (Note: Consulate General Casablanca will report on remittances septel. End Note.) Foreign investment, which plays an important role in Morocco's capital accounts balance, also has shown some weakness in 2009, particularly as investors rethink projects in previously booming sectors such as high-end lodging. For the first quarter of 2009, foreign investment in Morocco is down 12 percent compared to 2008. Transfers from Moroccan workers abroad have also declined approximately 15 percent in 2009, and earnings in the tourism industry have dropped by 20 percent since last year.

¶8. (SBU) Despite these weaker inflows, and contrary to the HCP forecasts, el Aynaoui predicts that the overall current account deficit will remain unchanged in 2009. The central bank's foreign currency reserves slipped to approximately USD 22.7 billion by the end of 2008, equivalent to 6.2 months of import coverage, from an average of 8.8 months in 2001 -
¶2007. However, el Aynaoui pointed out, as imports have dropped in 2009, the import coverage has inched back up to close to 7 months, despite a further decline in reserves to around USD 21.8 billion.

¶9. (SBU) Economist Ahmed Laaboudi of the CMC speculated that the Ministry of Economy and Finance may resort to borrowing on international markets to replenish Morocco's foreign currency reserves if they continue to shrink. Increasing the amount of external debt after years of assiduous efforts to bring the level down to the current USD 18 billion (around 21 percent of GDP) would be a bitter pill for the Ministry to swallow, he observed. El Aynaoui, in contrast, dismissed concerns about the kingdom's foreign reserves as unfounded media hype. He asserted that five or six months of import coverage appears to be sufficient for Morocco's needs, pointing out that Morocco has very low exposure to foreign exchange rate risks: most of its external debt is of long-term maturity and amounts to only 10 percent of GDP. He emphasized that even combined public and private external debt amounts to only 26 percent of GDP.

¶10. (SBU) The perceived risk from the shrinking foreign reserves has led to media speculation that the Kingdom may devalue the dirham, which the newsweekly Maroc Hebdo suggested was overvalued by up to 15 percent against the pound and, more importantly, five to 25 percent against the currencies of export competitors such as Egypt, Tunisia and Turkey. Laaboudi told EconOff on July 14 that the Ministry of Economy and Finance "would like to devalue" the currency to shore up the balance of payments but is unlikely to do so given the inflation risks of such an action, and the possibility that higher costs of imported manufacturing inputs would erase the export competitiveness gains that devaluation could bring. El Aynaoui also dismissed the possibility of a currency devaluation, citing the risks to Morocco's painstakingly established international credibility in its exchange regime. He pointed out that Morocco's export markets are experiencing such depressed demand that the competitive edge gained from a currency devaluation would be marginal.

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Boosting Liquidity in Anticipation of Lower Deposits
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¶11. (SBU) BAM lowered banks' reserve requirements from 12

percent to 10 percent on July 1, citing a "structural liquidity deficit." El Aynaoui explained that the higher reserve requirements (up to 16.5 percent in 2007) had been implemented to manage a period of "excess capital," when Arab states had directed large capital flows to Morocco, and Morocco still enjoyed a large current account surplus. The phased reduction in the reserve requirement since then is a normal response to the end of those circumstances, he emphasized. BMCE's Bennani opined that Moroccan banks' liquidity was sufficient even before the reduction of reserve requirements, but the central bank action was taken to ensure a liquidity pool going forward as lower remittances and tourism receipts reduce the traditional level of banking deposits. Additionally, the central government's anticipation of lower fiscal receipts this year will necessitate a return to government borrowing on the local market after two years of budgetary surpluses. The BAM's move to increase liquidity is "forward-leaning," Bennani explained, and brings Moroccan banks closer to, but still more conservative than, worldwide norms for reserve margins.

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Comment: No Panic, but Time for Structural Reforms
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¶12. (SBU) As a Ministry of Economy and Finance official observed to EconOff, Morocco has the dubious privilege of worrying about possible future effects of the recession, unlike many of its neighbors who are worrying about real current effects. Tourism Minister Mohamed Boussaid, questioned about official growth predictions at a recent public event, pointed out that many countries would be eager to be debating whether growth would come in at 5 versus 6 percent. Nonetheless, the country's situation is fragile, and this year's comfortable growth prediction is principally a gift of favorable weather to agriculture. The government and private sector are trying to address Morocco's structural deficiencies, highlighted by the worldwide recession, by boosting the competitiveness and productivity of Moroccan businesses and exports (Ref B), but these plans will take years to show results in the balance of payments and GDP growth statistics. Morocco's best hope of emerging unscathed from the current crisis is a speedy recovery elsewhere in the world, especially Europe. The only other way to increase next year's growth seems to be another record rainy season. End Comment.

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